

Message Text

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INFO OCT-01 SS-14 ISO-00 NEA-07 EB-04 NSCE-00 L-01
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DRAFTED BY TREAS:OASIA:IDN:S O CHILTREE
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TREAS:OASIA:IDN:F MARESCA
TREAS:OASIA:IDN:R PELIKAN
TREAS:OASIA:ID:A NACHMANOFF
TREAS:OS:I:C F BERGSTEN
IMF:US.ED:S CROSS
STATE:NEA:EGY:P KENNEDY
STATE:AID:NE:J ROBERTS
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TO AMEMBASSY CAIRO PRIORITY
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C O N F I D E N T I A L STATE 086020

LIMDIS FOR AMBASSADOR FROM BERGSTEN

E.O. 11652: XGDS-1

TAGS: EFIN, IMF, EG

SUBJECT: EGYPT-IMF NEGOTIATIONS

REF: CAIRO 6738, CAIRO 9241

1. SUMMARY: IMF STAFF BRIEFED U.S. EXECUTIVE DIRECTOR
AND OTHERS FROM STATE, AID, AND TREASURY ON STATUS OF
EGYPT'S NEGOTIATIONS WITH IMF. NEGOTIATIONS APPEAR TO
BE MOVING SATISFACTORILY AND WE DO NOT THINK U.S. GOVERN-
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MENT SHOULD INTERVENE. END SUMMARY.

2. EXTENDED FUND FACILITY FOR EGYPT STILL POSSIBLE. NEW
PROPOSAL HAS JUST BEEN TELEGRAPHED TO CAIRO AND FUND TEAM
WILL RETURN TO EGYPT IN ABOUT TWO WEEKS. IMF STAFF BE-
LIEVES FUND AND EGYPT MIGHT BE ABLE TO REACH AGREEMENT ON
KEY ISSUE OF BUDGET DEFICIT EITHER THROUGH REDUCTION OF

DEFICITS OF PUBLIC SECTOR CORPORATIONS (WHICH INVOLVSPASS-
ING ON INCREASES IN IMPORT PRICES ON INDUSTRIAL PRODUCTS)
OR FISCAL MEASURES WITH EQUIVALENT IMPACT. KAISSOUNI HAS
INDICATED VERY STRONG INTEREST IN AN EFF RATHER THAN AN-
OTHER STANDBY, AND IMF STAFF AGREE THAT A LONGER TERM
PROGRAM HAS ADVANTAGES.

3. ALTERNATIVE TO EFF WOULD BE ANOTHER STANDBY OF 100-120

MILLION DOLLARS WHICH WOULD TAKE EGYPT TO TOP OF THIRD
TRANCHE OR BEGINNING OF FOURTH TRANCHE. SUCH A STANDBY
COULD POSSIBLY BE CONVERTED INTO AN EFF LATER. DRAWINGS
UNDER AN EFF COULD OVER TIME TOTAL SUBSTANTIALLY MORE.

4. EGYPT MISSED ITS DECEMBER STANDBY CEILINGS AND THERE-
FORE WAS NOT RPT NOT ABLE TO DRAW SDR 20 MILLION LAST
PORTION. NEVERTHELESS, EGYPTIAN ECONOMIC SITUATION AP-
PEARS BETTER THAN EXPECTED AS FY-CY 1978 BUDGET IS NOT
AS BAD AS IT LOOKS. APPARENTLY BUDGET SIGNIFICANTLY OVER-
STATES PROBABLE EXPENDITURES (ESPECIALLY FOR INVESTMENT
AND WAGE INCREASES) AND UNDERESTIMATES LIKELY TAX REVENUES.

5. EGYPT'S 1978 FINANCIAL GAP ESTIMATED AT ABOUT 1.3
BILLION DOLLARS AND NEW ARAB AID OF 500-600 MILLION DOL-
LARS PROBABLY NEEDED TO COVER IT. IF EGYPT IMPLEMENTS IMF
REFORMS IT MIGHT BE ABLE TO BORROW MEDIUM TERM IN EURO-
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DOLLAR MARKET IN ABOUT TWO YEARS.

6. SAUDIS HAVE APPARENTLY ENCOURAGED EGYPTIANS TO SEEK
MAXIMUM DRAWINGS FROM IMF, BUT WE UNDERSTAND EFF IS NOT
RPT NOT A PRECONDITION FOR FURTHER ARAB ASSISTANCE.

7. IMF STAFF NOTED THAT IF GOE CHOOSES TO ALLOW INCREASES
IN PUBLIC SECTOR INDUSTRIAL PRODUCT PRICES RATHER THAN
TAKING FISCAL ACTION, RESULT NOT RPT NOT GOING TO CAUSE
MASS HARDSHIP. ITEMS SUCH AS WHEAT AND FLOUR WHICH ARE
DIRECTLY SUBSIDIZED IN BUDGET WOULD BE UNAFFECTED. MANY
OF THE SEVERAL DOZEN PRODUCTS WHOSE PRICES WOULD GO UP
ARE SUCH QUOTE LUXURY UNQUOTE ITEMS AS WASHING MACHINES
AND TV'S. PRESENT ECONOMIC DISTORTIONS PRODUCE BLACK
MARKET PRICES FOR THE FEW AND ONLY LIMITED BENEFITS FOR
THE MASSES, WHO HAVE DIFFICULTY GETTING ACCESS AT SUB-
SIDIZED PRICES.

8. ALL OF THE ABOVE INFORMATION SHOULD BE KEPT IN STRIC-
TEST CONFIDENCE. VANCE

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